



SIMPLIFYING STUDENT LOANS ACT

SPONSORED BY REP. SUSAN WILD (PA-07)

WHY DO WE NEED THE SIMPLIFYING STUDENT LOANS ACT?

The federal student loan system is failing borrowers, taxpayers, and our economy. Americans hold more than \$1.5 trillion in student loan debt, and federal loans account for the vast majority of this debt. Many Americans are at risk of defaulting on their student loans, and borrowers often struggle to make progress on paying off their debt despite years of effort because of high interest rates and unaffordable monthly loan payments.

Exacerbating these problems is that the federal government operates numerous loan repayment plans that often cause unnecessary confusion. This system can result in borrowers choosing a plan that is not right for them or getting stuck with unaffordable monthly payments that are prohibitive to making progress on paying off loans. These difficulties can especially affect students who are the first in their family to attend college or come from lower income families and are less likely to have access to thorough guidance on the student loan system.

The *Simplifying Student Loans Act* comprehensively addresses problems with our student loan system, by making student loans easier to understand, and cheaper, simpler, and quicker to repay. The bill replaces the numerous existing federal student loan repayment plans with two repayment plan options: one fixed repayment plan and one income-based repayment plan. In addition, the *Simplifying Student Loans Act* limits the amount of a person's monthly discretionary income that they must spend on student loan payments, which will greatly reduce the rate of student loan defaults. The bill also establishes an interest rate of just one percent on new federal student loans, which is much lower than the current average interest rate.

WHAT WILL THE SIMPLIFYING STUDENT LOANS ACT DO?

The Simplifying Student Loans Act would simplify the loan repayment process, make borrowers more informed as they choose their repayment plans, and make monthly payments more affordable and loans ultimately easier to repay. This bill is good for our economy; it reduces the financial strain on borrowers and protects them, along with American taxpayers, from the severe consequences of student loan default. These changes will keep our students on track to successfully repay their loans, support their families, and achieve their long-term financial goals. Specifically, the bill:

- Replaces the existing federal student loan repayment plans with one standard repayment plan and one income-based repayment plan. These repayment plans would have more generous repayment terms for borrowers and would improve financial stability for low-income and middle-income borrowers.
- Establishes a one percent interest rate on student loans. This is significantly lower than the current average student loan interest rate, which is almost six percent. By reducing the interest rate to one percent, borrowers will be able to make real progress on paying off their loans.
- Encourages borrowers to enroll in the income-based repayment plan by making it easier to enroll in the plan and by making these plans more generous for borrowers. Research shows that borrowers in income-based repayment plans have better financial outcomes, are less likely to default on their loans, and have lower monthly loan payments. In this income-based repayment plan, a borrower's monthly student loan payment is calculated based on income and family size.
 - The new income-based repayment plan would be more generous than current law by allowing individual borrowers earning below 250 percent of the federal poverty line (which is income of \$33,975 annually or less) to make monthly loan payment amounts of \$0 until their earnings improve. This change will decrease the rate of student loan defaults and support struggling student loan borrowers.
- Under the income-based repayment plan, monthly student loan payments would be capped at no more than 10 percent of a borrower's discretionary income. And, after 20 years of making payments, any remaining student loan debt would be forgiven.